

Ninth Circuit Interprets DMCA Safe Harbor in Favor of Service Providers Like Veoh

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The Ninth Circuit Court of Appeals recently upheld summary judgment and a Rule 12(b)(6) dismissal in favor of a copyright infringement defendant and online service provider, Veoh Networks Inc. (“Veoh”). *UMG Recordings, Inc. v. Shelter Capital Partners LLC* (Case No. 09-55902); *UMG Recordings, Inc. v. Veoh Networks, Inc.* (Case Nos. 09-56777, 10-55732) (9th Cir. Dec. 20, 2011).

Veoh operates a website (<http://www.veoh.com>) where users upload and share their own digital videos. Some of Veoh’s users include major entertainment industry companies, but not UMG Recordings, Inc. (“UMG”). When certain users uploaded without authorization videos that were copyrighted by UMG, UMG sued Veoh and three of its investors.

Veoh’s investors moved for dismissal. Veoh moved for summary judgment based on its affirmative defense that it is protected by the safe harbor provisions of the Digital Millennium Copyright Act (“DMCA”), specifically under 17 U.S.C. § 512(c), which provides that “[a] service provider¹ shall not be liable for monetary relief, or . . . for injunctive or other equitable relief, for infringement of copyright by reason of the storage at the direction of a user of material that resides on a system or network controlled or operated by or for the service provider,” as long as the service provider satisfied certain other conditions.² Both Veoh’s and Veoh’s investors’ motions were granted by the district court.

UMG appealed, arguing that (1) the statutory language “by reason of storage” should be construed strictly to preclude Veoh’s activities, (2) Veoh had actual knowledge of infringement or was otherwise aware of such infringement due to certain “red flags,” (3) Veoh’s “right and ability” to remove infringing content deprived it of safe harbor protection, and (4) Veoh’s investors should not have been dismissed. The Ninth Circuit Court of Appeals rejected UMG’s above arguments and affirmed the district court’s decisions.

¹ The term, “service provider,” as used in 17 U.S.C. § 512(c), is inclusive but not synonymous with the colloquial term, “Internet Service Provider” (“ISP”). “Service providers” under 17 U.S.C. § 512(c) are defined as “a provider of online services or network access, or the operator of facilities therefor.” 17 U.S.C. § 512(k)(1). This includes not only ISPs, but also companies such as Veoh, whose website provides online video hosting and access services.

² The text of 17 U.S.C. § 512 is available at the Cornell University Law School website (http://www.law.cornell.edu/uscode/html/uscode17/usc_sec_17_00000512----000-.html) (current as of January 7, 2011).

“By reason of storage” includes facilitating access to stored files

When users upload their videos to the Veoh website, Veoh automatically converts those video files to “chunked and Flash files” to facilitate video streaming and downloading. UMG argued that by reason of this conversion process, Veoh “facilitated public access” to the user-uploaded videos, thereby falling outside of the protection of 17 U.S.C. § 512(c)(1). Specifically, UMG argued that “by reason of storage at the direction of a user” meant storage only, not “facilitating public access” of stored materials.

The court disagreed with UMG. Instead, the court found that the language and structure of the statute clarify that Section 512(c) encompasses “access-facilitating activities.” Since a service provider can comply with the safe harbor provisions by “disabling access to” certain copyrighted material on the Internet (e.g., 17 U.S.C. § 512(c)(1)(A)(iii), (c)(1)(C), and (c)(3)(A)(iii)), facilitating access must not be a disqualifying activity.

The difficulty of proving actual knowledge and satisfaction of the “red flag” test

To be entitled to the DMCA safe harbor provisions, a service provider must (1) have no actual knowledge of infringing material on its system, (2) have no awareness of facts or circumstances from which infringing activity is apparent, or (3) remove or disable access to infringing material upon obtaining knowledge or awareness of that material.

The court refused to impute to Veoh any knowledge or awareness of infringing activity. The court clarified the following:

- No knowledge or awareness is imputed merely by the hosting of copyrightable material.

As the DMCA safe harbor provisions protect service providers from copyright liability, it would make no sense to exclude from protection the hosts of copyrightable material. Further, “copyrightable” is not the same as “infringing”—for example, many copyright holders license their content to Veoh.

- Copyright holders bear the burden of policing their work; service providers have no duty to monitor content uploaded by third-party users.

“Copyright holders know precisely what materials they own,” so they may more efficiently identify infringing copies than a service provider. The DMCA safe harbor provisions were also enacted because Congress realized the importance of Internet development, and did not want the “specter of liability to chill innovation that could also serve substantial socially beneficial functions.”

- Knowledge of specific instances of infringement or infringing capabilities is not sufficient to confer knowledge or awareness of all infringing activity.

While service providers must remove or block access to specific infringing material upon receiving proper notice, the service provider has no duty to locate any other content owned by the copyright holder. No knowledge will be imputed as to any infringing material other than those properly identified in a take-down notice.

Further, it is not sufficient to revoke safe harbor eligibility for service providers merely because they know that their service may be, has been, and is used for infringing purposes by some users.

To hold to the contrary would mean that the safe harbor would be no safe harbor at all—the take-down procedures would provide protection for only one instance of infringement, and the burden would be impermissibly shifted back to the service providers rather than properly placed on the copyright holders.

- Take-down notices only confer actual knowledge to the specific works identified, and only if the notices themselves are fully DMCA-compliant.

Again, the burden is squarely on the copyright holders.

Yet, interestingly enough, the court notes that should a third party identify infringing material in a sufficiently specific manner, that may constitute a “red flag” under 17 U.S.C. § 512(c)(1)(A)(ii), potentially imputing “awareness of facts or circumstances from which infringing activity is apparent.” The court declined to discuss this in detail, however, as UMG failed to allege that Veoh failed to expeditiously remove the identified infringing material.

“Right and ability to control” infringing activity means more than the right and ability to remove infringing material

To be entitled to the DMCA safe harbor provisions, the service provider must not “receive a financial benefit directly attributable to the infringing activity, in a case which the service provider has the right and ability to control such activity.” 17 U.S.C. § 512(c)(1)(B).

UMG argued that Veoh had the right and ability to control the infringing activity because it had the right and ability to remove infringing materials. The court again rejected UMG’s arguments.

The court explained that Veoh could not exercise its “right and ability to control” a particular infringing activity until it had actual knowledge or awareness of that specific unauthorized material. It would, after all, make little sense to exclude from protection all service providers that have the ability to remove infringing material when the statute

provides protection to service providers who, upon receiving the proper notice, remove infringing material.

Therefore, the “right and ability to control” under § 512(c) “requires control over specific infringing activity the provider knows about.” The right and ability to remove materials is insufficient. The court cautioned service providers, however, that they may not “bury its head in the sand to avoid obtaining such specific knowledge.”

In the alternative, UMG also argued that the phrase “right and ability to control” should be interpreted as the general ability to locate infringing material and terminate users’ access as discussed in *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9th Cir. 2001). The court disagreed, as the language in the *Napster* case pertained to common law vicarious liability, and Congress specifically refused to adopt vicarious liability language with respect to the DMCA safe harbor provisions.

Further, UMG’s suggestion that every service provider subject to vicarious copyright infringement liability could not be protected under the DMCA safe harbor provisions directly contradicts Congress’s clear intent to shield compliant service providers from direct, vicarious, and contributory copyright infringement liability.

For multiple investors of service providers to be found liable for contributory infringement, plaintiff must make a “lynchpin” allegation

UMG named three individual Veoh investors as defendants for its contributory infringement claims, presumably in part because the individuals were not “service providers” that could seek protection under the DMCA safe harbor provisions.

However, the appellate court upheld the lower court’s dismissal of these three investors because UMG did not allege that these investors worked in concert and agreed “to operate as a unified entity to obtain and leverage majority control.” To hold otherwise “would allow plaintiffs to sue any collection of directors making up 51 percent of the board on the theory that they constitute a majority, and therefore together they control the company.”

Practical Implications

The *UMG* opinion is the latest opinion continuing a line of decisions that have applied the DMCA safe harbor provisions fairly broadly and in favor of service providers. In *Viacom Int’l, Inc. v. YouTube, Inc.*, 718 F.Supp.2d 514, 529 (S.D.N.Y. 2010), the federal district court in New York found that the service provider, YouTube, was shielded from copyright liability under the DMCA safe harbor provisions. Viacom appealed, and the Second Circuit of Appeals is expected to soon issue an opinion. *Viacom International Inc. v. YouTube, Inc.* (2d Cir. Case No. 10-3270).

Even if the Second Circuit Court of Appeals continues this favorable trend for service providers, service providers should nevertheless exercise caution and continually examine their own practices.

For example, a service provider should implement procedures to ensure that few take-down notices are accidentally ignored. See *Capitol Records, Inc. v. MP3tunes, LLC*, 2011 U.S. Dist. LEXIS 93351 (S.D.N.Y. Aug. 22, 2011) (Case No. 07-cv-9931 (WHP)) (failure to respond to even a couple of DMCA take-down notices could subject the service provider to liability, even where the provider is otherwise DMCA-compliant). When a service provider adopts a new notice e-mail address, not only must this new address be updated with the Copyright Office and on the provider's own website, the provider should also ensure that, where possible and for a reasonable period, (1) e-mails are forwarded from the old address, and (2) automatic notification is sent in response to e-mails sent to the old address. See *Ellison v. Robertson*, 357 F.3d 1072, 1080 (9th Cir. 2004) (when AOL changed its e-mail address designated for DMCA notices, it failed to forward e-mail messages sent to the old address or send notification that the old e-mail address was inactive).

Copyright holders, of course, should also take care to ensure that their take-down notices are DMCA-compliant.

For more information about this article, or about the DMCA safe harbor provisions, please contact:

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Ms. Amato has worked on numerous cases involving the DMCA, including *Williams v. Scribd, Inc.*, 2010 U.S. Dist. LEXIS 90496 (S.D. Cal. June 23, 2010) (Case No. 09-cv-1836 LAB (WMc)), with Richard P. Sybert, rsybert@gordonrees.com. Gordon & Rees LLP defended Scribd, Inc. ("Scribd") (see <http://www.scribd.com>) against direct, vicarious, and contributory copyright infringement claims. Though the court was unwilling to consider the DMCA safe harbor defense on a motion to dismiss, it did note that Scribd, which provided evidence of its DMCA compliance, appeared to have "the better arguments" on the merits. The case settled soon thereafter.

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